United Nations A/53/940

General Assembly

Distr.: General
6 May 1999

Original: English

Fifty-third session
Agenda item 111
Financial reports and audited financial statements, and reports of the Board of Auditors

United Nations peacekeeping operations

Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with financial regulation 12.11, the Advisory Committee on Administrative and Budgetary Questions has considered the report of the Board of Auditors on the financial report and audited financial statements for the United Nations peacekeeping operations for the 12-month period ended 30 June 1998 (A/53/5, vol. II[1]).

2. In its reports A/51/533 (para. 17) and A/53/513 (para. 13), the Committee had commented on the timing of the submission of the Board's report to the Committee. The Committee welcomes the progress made in this regard; the Committee exchanged views with the Audit Operations Committee of the Board as well as with the representatives of the Secretary-General. In the Committee's opinion it would be useful for the Committee to have the report available to it by the beginning of February so that the Board's findings and recommendations could be taken into account when the Committee considers the budgets for peacekeeping operations. Although the Committee was informed by the representatives of the Secretary-General about the present constraints, the Committee requests that efforts be redoubled in this regard to accelerate the process.

3. The Committee commends the Board for the format and presentation of is report. While the main recommendations have been highlighted, implementation of recommendations in paragraph 10 (i) and 10 (j) should take account of the new situation consequent upon the termination of the mandate of MONUA.

4. Financial issues have been covered in paragraphs 12 to 40 of the Board's report (A/53/5, vol. II, chap. II). With regard to the Peacekeeping Reserve Fund (paras. 20-24), the Committee recalls the purpose of the Fund as stipulated in General Assembly resolution 47/217, i.e., as a cash flow mechanism to ensure the rapid response to the needs of peacekeeping operations. The General Assembly, in its resolution 49/233, decided to limit the utilization of the fund to the start-up phase of new peacekeeping operations, to the expansion of existing ones or to unforeseen and extraordinary expenditures related to peacekeeping. Information on the use of the Fund is contained in the report of the Secretary-General (A/53/912). In view of the substantial decrease in the level of peacekeeping operations, the Committee believes that the current level of the Fund, at $150 million, should be reconsidered by the General Assembly, taking into account all relevant factors.

5. With regard to unliquidated obligations (A/53/40, vol. II, chap. II, paras. 25 to 28), the Committee recalls its concerns in this regard as expressed in its report A/52/860 (paras. 28–29). Given the continued high level of unliquidated obligations, the Committee is of the view that the frequency of the reviews should be increased and their quality improved as a matter of priority. The Committee

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notes that part of the amounts obligated are related to inter-office vouchers (IOVs), as indicated in paragraph 27 of the Board's report. The Committee recommends that in its next audit, the Board examine the reasons that lead to the backlog in the processing of IOVs. The Committee further recommends that the Secretariat and funds and programmes, should, in the context of the ACC machinery, discuss and devise more efficient methods of clearing IOVs, including the use of new technology; however, measures adopted should not adversely affect the capacity of the activities concerned to retain audit trails.

6. The non-recognition, in the accounts, of claims of troop-contributing countries (TCCs), as reported by the Board in paragraphs 13 and 14, is a serious deficiency on the part of the Administration and needs urgent attention. The Committee notes that such deficiencies may lead to late settlement of claims due to lack of reservation of funds in the related accounts as pointed out in paragraph 14 (b) of the Board's report.

7. In paragraphs 35 to 38 and 121 to 129, the Board has commented extensively on property losses, reporting of losses, the write-off process and the workings of the Property Survey Boards. The Advisory Committee is concerned about what appears to be a very cumbersome and involved process of reporting losses. In the opinion of the Committee, there is a need to improve considerably the coordination between the various units involved in handling property losses. The functioning of the Property Boards appears inefficient, involved and very lengthy. It is the view of the Committee that many of the results of the audit of write-off of property losses confirm the Committee's previous comments on the poor quality of inventory management in the United Nations. This has often led to misleading or inflated requests for acquisition of new equipment and other assets. The Committee recommends that urgent steps be taken by the Secretariat to correct the weaknesses identified by the Board's audit. Corrective measures should include staff training, and — where necessary — temporary deployment of qualified staff to clear any existing backlog. Any failure to prepare and submit adequate documentation is serious and needs to be dealt with by management accordingly.

8. Management issues are dealt with in paragraphs 41 to 142 of the Board's report. This section (paras. 47–82) of the Board's report deals in large part with the subject of contingent-owned equipment (COE). The Committee in its report A/52/860 (para. 47) had requested a special audit of this subject. The Committee commends the Board for its audit, and welcomes the observations and recommendations that the Board has made. The audit has confirmed many of the observations made in previous reports of the Committee, in particular those made in its report A/52/860 (paras. 40 to 48) that the capacity of the Secretariat to manage the new COE arrangements is lacking.

9. The retroactive implementation of the new arrangements, in particular in relation to missions that had closed prior to 1 July 1996, has the potential for the United Nations being overcharged for the same items of equipment and self-sustainment. The Board's audit has also revealed that any expectation that the new COE arrangements would be less costly to the United Nations and to Member States has yet to be realized.

10. The Committee is particularly concerned by the implication of applying the new COE procedures retroactively to missions that had their mandates terminated before July 1996. The Committee has commented on this question in its report A/52/860 (para. 44). From the information provided to it the Committee notes that, for example, for UNOSOM, UNAMIR and ONUMOZ, an amount of approximately $7.8 million as reimbursement for COE has been determined on the basis of new COE procedures. The Committee notes that in the case of UNOSOM, of an estimate of $31.9 million, an amount of $5.6 million has been agreed to be paid to the TCC. The Committee requested information as to how the new arrangements were applied in these cases and whether the wet or dry lease arrangements were being applied. The Committee also requested information on how the Secretariat calculated the sustainment costs and other expenses incurred by the United Nations. The information received by the Committee from the Administration in response to these requests is contained in the annex below; as can be seen from that annex, it is unsatisfactory. The Committee reiterates its view, expressed in paragraph 8 of its report A/52/853, that the potential exists for double payment with respect to services provided by the United Nations to contingents which may overlap with services of self-sustenance.

11. The recommendations of the Board and the observations of the Committee on contingent-owned equipment should be read in conjunction with the corresponding peacekeeping reports and the Committee's observations and recommendations in its report A/53/___ on the report of the Working Group Phase IV (A/C.5/52/39) and the Secretary-General's report (A/53/465). With respect to the Board's recommendation in paragraph 57 of its report, the Committee recommends that the United Nations supplement, as appropriate, its own in-house expertise with the assistance of independent outside expertise in the review and assessment of the generic fair market value of equipment. The Committee recommends that the review be

undertaken in 2000 for the results to be included in the peacekeeping budgets for the period 1 July 2001 to 30 June 2002 (see A/53/___).

12. With respect to the recommendation in paragraph 79 of the Board's report that the Administration review the question of the retroactive application of the new arrangements for reimbursement of COE, the Committee notes that a similar recommendation has been made by the Working Group Phase IV (see paras. 26 to 28 of A/53/465 and para. 73 of A/C.5/52/39). The Committee points out that issues related to the retroactive application of the new COE arrangements are temporary as they relate to the transition from the old to the new system of reimbursement. In this connection, the Committee notes from paragraph 28 of the Secretary-General's report A/53/465 that a definitive comparison of the systems is not available at present to achieve an accurate comparison between the two systems. Furthermore, it is doubtful whether the results of the review would affect retroactive payments already agreed to between TCCs and the United Nations. For the reasons given in its report on COE (see A/53/___), the Committee does not see any merit in conducting a review as recommended in paragraph 79 of the Board's report.

13. The Committee notes from paragraphs 41–43 of the Board's report that while the level of peacekeeping operations has declined, the cost of the top 25 commodities and services purchased for peacekeeping operations has gone up. The Committee notes further that the response of the Administration in paragraph 44 of the Board's report does not address this specific finding by the Board. On enquiry, the representatives of the Secretary-General indicated that as a whole, procurement activities had gone down. Nevertheless, the Committee agrees that the Administration should carefully monitor the increasing level of procurement for peacekeeping operations in the areas identified by the Board. The Committee recommends that in its next audit the Board follow up on its current finding and examine the reasons for the increase.

14. The Committee expresses its concern about the serious weaknesses identified by the Board with regard to contract management in MONUA (paras. 97–109). The Committee recommends that the circumstances that led to these lapses be examined by the Secretariat and the lessons learned be applied to other peacekeeping missions, together with the recommendations of the Board.

15. The Committee notes with appreciation the considerable decrease in the number of cases submitted to the Headquarters Committee on Contracts on an *ex post facto* basis, as indicated in paragraph 45 of the Board's report. On enquiry, the Audit Operations Committee of the Board informed the Committee that the Board intends to examine the question of the application of the definition of exigency as contained in the report of the Secretary-General (A/C.5/52/46) at the time the Board carries out a horizontal audit of the United Nations procurement activities as requested by the Committee in its report A/53/513 (para. 24).

16. The comments by the Board in paragraphs 83 and 84 of its report reveal weaknesses in the Procurement Division's filing system at Headquarters. Unless immediate measures are taken, these management weaknesses could seriously affect the procurement process. The Committee recommends that use be made of new technology in the reform of the filing system. Such technology should be compatible with the requirement of providing a clear audit trail for all procurement activities.

17. In paragraphs 91 to 93 of its report, the Board has commented on improper hiring of temporary staff in UNDOF through the use of purchase orders. The Committee recommends immediate review of this practice, and the action taken to rectify the situation should be reported in the next budget for UNDOF. The Committee further recommends that a review be made to ascertain whether similar situations exist in other peacekeeping missions, with a view to making corresponding corrections.

Notes

[1] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 5*, vol. II.

Annex

Information supplied by the Secretariat on contingent-owned equipment reimbursement

Question

On enquiry the Committee was informed, for example, that for UNOSOM, UNAMIR and ONUMOZ approximately $7.8 million contingent-owned equipment (COE) reimbursement has been determined on the basis of the new COE procedures. The Committee notes that in one case (UNOSOM) involving an estimate of $31.9 million, $5.6 million has been agreed to. Please provide an explanation as well as information as to how the new arrangements were applied.

Answer

1. The amount of $31.9 million indicated in the question represents an amount for COE reimbursement owing to one troop-contributing country (TCC) for UNOSOM (see also para. 3 below).

2. UNAMIR. Of 17 troop contributors, two have opted for the new COE arrangements. One TCC has been reimbursed in full in the amount of $596,681 based on the dry lease rate for the equipment provided to the Mission (no self-sustainment costs were claimed). Another TCC has submitted a claim requesting wet lease reimbursement for major equipment and self-sustainment. The claim is estimated at $2,311,723, and is presently under review in order to verify the degree of self-sustainment and the performance standard that the TCC should meet to be entitled to wet lease rates.

3. UNOSOM. Of the 28 troop contributors, one TCC has requested reimbursement under the new procedures for wet lease and self-sustainment. The claim is estimated at $31,941,951.

4. ONUMOZ. Of the 10 troop contributors, one TCC has requested reimbursement under the new procedures for wet lease and self-sustainment. The claim is estimated at $11,887,573.

5. The self-sustainment costs for UNOSOM and ONUMOZ were calculated based on the rates endorsed by the General Assembly in its resolution 50/222 of 11 April 1996. United Nations personnel who participated in the missions were contacted for confirmation that the TCC provided the appropriate support levels to justify the reimbursement.